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INCOMING
TELEGRAM

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ACTION AID-00

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GOK.

ACTION OFFICE POFR-01
INFO AFPA-03 AFDP-06 AFTR-05 PPOE-01 PPIB-02 STAG-02 SAST-01
AFPL-04 AGRI-01 TVA-01 RELO-01 PRE-06 PPPR-01
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INFO LOG-00 COPY-01 AF-00 EB-00 /009 W
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FM AMEMBASSY NAIROBI
TO SECSTATE WASHDC PRIORITY 64J9

UNCLAS NAIROBI 25100

AIDAC

E.O. 12356: N/A
SUBJECT: ABS, ANNEX L, PRIVATIZATION PLAN

REF: STATE 189806

THE FOLLOWING IS THE MISSION'S PRIVATIZATION PLAN WHICH
WAS REQUESTED REFTEL 1 SHOULD BE CONSIDERED AS ANNEX
L TO THE KENYA FY 1985 ABC:

1 OVERVIEW

THE MISSION HAS SUPPORTED THE GOK'S DIVESTITURE POLICY
SINCE ITS ANNOUNCEMENT IN THE HDEGWA REPORT OF 1982.
DUE TO THE EXTREME GOK SENSITIVITY TO INVOLVEMENT OF
OUTSIDE DONORS IN THE DIVESTITURE PROCESS, OUR ACTIONS
TO DATE HAVE FOCUSED MORE ON CREATING AN ENABLING
ENVIRONMENT FOR THE PRIVATE SECTOR RATHER THAN STRICTLY
IN QUOTE PRIVATIZATION INQUOTE I.E. THE SALE OF PUBLIC
COMPANIES. PRIMARY GOALS AND SERVICES TO THE PRIVATE
SECTOR. WHAT THE MISSION HAS DONE IS TO SUPPORT A
POLICY OF OPENING UP PUBLIC MONOPOLIES AND MONOPSONIES
TO PRIVATE PARTICIPATION, I.E. TO CREATE COMPETITION FOR
STATE OWNED ENTERPRISES (SOES) AND THUS TO SHOW POLICY-
MAKERS THAT PRIVATE ENTITIES CAN DO THE JOB MORE
EFFICIENTLY AND WITHOUT BURDENING THE PUBLIC EXCHEQUER.
IN ADDITION THE MISSION HAS SUPPLIED ESF-FINANCED
TECHNICAL ASSISTANCE TO SUPPORT KENYA'S BUDGET
RATIONALIZATION PROCESS INCLUDING ESTABLISHMENT OF
INTERNAL AND EXTERNAL DEBT REPORTING SYSTEMS WHICH,
INTER ALIA, SHOW THE COST OF SOE'S OPERATIONS ON THE
BUDGET. KENYA HAS SUCCEEDED IN REDUCING THE PARASTATAL
SHARE OF THE DEVELOPMENT BUDGET FROM 16 PERCENT IN 1978
TO 4 PERCENT IN 1985. RECENTLY THERE HAVE BEEN SEVERAL
COMPLETE DIVESTITURES IN KENYA, E.G. UPLANDS BACON,
KENYA FISHING INDUSTRIES. WHILE IT IS TRUE THAT THE
MISSION HAS INFLUENCED THOSE DIVESTITURE DECISIONS MADE
BY GOVZ NIENTHROUGH OUR CONTINUING POLICY DIALOGUE
THE FINAL DECISIONS HAVE BEEN MADE BY GOVERNMENT BASED
ON ECONOMIC
REALITIES.

THE MISSION HAS ACTIVELY SUPPORTED THE DIVESTITURE
PROCESS THROUGH SUGGESTIONS AND BY CONDITIONALITY
COVENANTS (N) AND HAS COMPLETED
ITS INITIAL WORK. TWO DIVESTITURES RECOMMENDED BY THE
TASK FORCE (THE KENYA FISHING INDUSTRIES AND UPLANDS
BACON) HAVE NOW BEEN COMPLETED AND AGREEMENT ON A THIRD
DIVESTITURE (THE KENYA NATIONAL TRANSPORT COMPANY), HAS
BEEN REACHED. THE MISSION CAN CLAIM SOME CREDIT IN
INFLUENCING THE PRIVATIZATION PROCESS THROUGH DIALOGUE,
OFFERS OF ASSISTANCE TO FINANCIAL STUDIES OF DIVESTITURE
POSSIBILITIES AND THROUGH SOME CONDITIONALITY/COVENANT
TO AGREEMENTS WHICH WE PERCEIVE ARE ACCEPTABLE TO THE

2 THE THRUST OF OUR SHORT-TERM STRATEGY WILL BE ON
REDUCING THE ROLE OF STATE OWNED ENTERPRISES IN A
PARTICULAR FUNCTION, E.G. FERTILIZER IMPORTATION, BY
EXPOSING THEM TO PRIVATE SECTOR COMPETITION. THE
ASSUMPTION BEING THAT SOE'S BECAUSE OF INTRINSIC
STRUCTURAL DEFICIENCIES CANNOT EFFECTIVELY COMPETE
AGAINST PRIVATE ENTERPRISES. IT IS THE MISSION'S
BELIEF THAT IF IT CAN BE DEMONSTRATED THAT A SERVICE CAN
BE MORE EFFICIENTLY PROVIDED BY A PRIVATE
ORGANIZATION(S) WITH THE PUBLIC WELFARE STILL PROTECTED,
THAT THE SOE WILL BE SOLD OR DISSOLVED. AT THE LEAST,
ITS MARKET SHARE WILL RAPIDLY ERODE. A GOOD EXAMPLE IN
KENYA WOULD BE THE RECENT DIVESTITURE OF UPLANDS BACON
WHICH ONLY OCCURRED AFTER SEVERAL PRIVATE SECTOR FIRMS
WERE ALLOWED TO COMPETE AND DID SO SUCCESSFULLY.
MISSION SUPPORT OF THE GOK'S DIVESTITURE POLICY TO DATE
INCLUDES:

(A) SHORT TERM CONSULTANT ADVISOR IN EARLY 1984 WHO
LOOKED AT THE GOK PROCESS FOR DETERMINING WHICH
PARASTATALS WERE TO BE SOLD, AND THE PREPARATION
REQUIRED FOR SUCH SALES.

(B) SENDING ONE PRIVATE SECTOR PARTICIPANT TO THE
WASHINGTON CONFERENCE ON PRIVATIZATION IN EARLY 1986
(FY) THE PUBLIC PARTICIPANT WAS DENIED CLEARANCE TO
ATTEND WHICH REFLECTS GOVERNMENT SENSITIVITY TO DONOR
INVOLVEMENT WITH THE DIVESTITURE PROCESS END FYI).
(C) THE INCLUSION (AS AN ESF COVENANT) OF 25 PARASTATAL
BUDGETS IN THE GOK'S 1984/85 BUDGET IN ORDER TO IDENTIFY
FINANCIAL STATUS AND LEVEL OF SUBVENTIONS. THIS IS
INTENDED TO IMPROVE FINANCIAL ACCOUNTABILITY OF MAJOR
PARASTATALS AND HIGHLIGHT WHAT ARE BELIEVED TO BE MAJOR
DRAWDOWNS ON THE GOK BUDGET BY PARASTATALS. THESE
SUBVENTIONS WERE LARGELY NOT APPARENT IN THE PAST. THE
FY 1984 ESF COVENANT HAS YET TO BE FULLY MET. HOWEVER
THE GOK'S JUNE 1986 BUDGET SPEECH ANNOUNCED THAT ALL
PARASTATAL BORROWING FROM GOVERNMENT OR BORROWING
GUARANTEES BY GOVERNMENT WOULD HAVE TO OCCUR WITHIN THE
OFFICIAL BUDGET PROCESS.

(D) REGULAR FOLLOW-UP WITH THE GOK AND REPORTING ON
PROPOSED DIVESTITURES.

(E) FERTILIZER DISTRIBUTION BY DOMESTIC PRIVATE
ENTREPRENEURS IN COMPETITION WITH AN ENTERPRISE
PARTIALLY OWNED BY GOVERNMENT. APPROXIMATELY 50 PERCENT
OF FERTILIZER IMPORTS ARE NOW DISTRIBUTED BY PRIVATE
FIRMS AS COMPARED WITH 5 TO 10 PERCENT IN 1981.

(F) PRIVATE MILLER PURCHASES OF CONCESSIONAL FOOD GRAIN
AT PORT OF ENTRY (TITLE I CONDITIONALITY).

(G) PRIVATE SECTOR PARTICIPATION IN PROVIDING SERVICES
AND SUPPLIES FOR FAMILY PLANNING.

(H) DIRECT PRIVATE MILLER PROCUREMENT OF MAIZE IN
CONJUNCTION WITH A SOE, FORMERLY A MONOPOLY OF THE
LATTER.

3. SHORT TERM OBJECTIVES FOR FY 1987/88:

(A) CONTINUED EMPHASIS ON DIVESTITURES BY PROVISION OF
CONSULTANTS AS AND WHEN REQUESTED TO ASSEMBLE FINANCIAL
PACKAGES TO FACILITATE SALE. EXAMPLES ARE \$500,000 FOR
80 PERSON - MONTHS OF TECHNICAL ASSISTANCE FOR
PARASTATAL RATIONALIZATION, OVERSIGHT, AND DIVESTITURE
UNDER FY 1986 STRUCTURAL ADJUSTMENT (ESF) PROGRAM.
UNDER THE PROPOSED FY 1987 PRIVATE ENTERPRISE

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DEVELOPMENT PROJECT THE MISSION PROPOSES TO PROVIDE
TECHNICAL ASSISTANCE TO KENYA'S INVESTMENT PROMOTION
CENTER TO HELP STRENGTHEN THE STOCK MARKET, AND TO
ASSIST GOVERNMENT TO DIVEST PARASTATALS MORE RAPIDLY
THROUGH THE PREPARATION OF PROPOSALS FOR THE PURCHASE OF
SELECTED PARASTATALS BY PRIVATE ENTITIES.

(B) WITH RESPECT TO FERTILIZER IMPORTATION UNDER THE
ESF PROGRAM, THE MISSION'S OBJECTIVE IS TO ELIMINATE THE
NEED FOR GOVERNMENT INVOLVEMENT IN THE ALLOCATION AND
PRICING OF FERTILIZER. WE PLAN TO STRENGTHEN PRIVATE
SECTOR MARKETING ORGANIZATIONS TO ENABLE THEM TO FURTHER
DEVELOP DISTRIBUTION NETWORKS AND EXTENSION SERVICES
THUS REDUCING AND/OR SUPPLEMENTING THE SOE'S INVOLVEMENT
WITH THESE FUNCTIONS.

(C) RESPECTIVE TO FOOD GRAIN, OUR OBJECTIVES, THROUGH
THE TITLE I, FOOD FOR PROGRESS AND ESF PROGRAMS ARE TO:

- ESTABLISH PROCEDURES OFFERING ALL DONOR-FINANCED
IMPORTS FOR PURCHASE BY PRIVATE MILLERS;
- ACHIEVE PUBLIC ANNOUNCEMENT OF A GOM POLICY OF
ENCOURAGING DOMESTIC GRAIN PROCUREMENT BY PRIVATE
MILLERS;
- INCREASE THE CURRENT BUYING LIMITS CONTROL ON
INTER-DISTRICT GRAIN TRADE OR ELIMINATE SUCH MOVEMENT
CONTROLS.

4. THE MISSION'S LONG-TERM OBJECTIVE REMAINS THE
DIVESTITURE OF THOSE SOE'S THAT COMPETE DIRECTLY WITH
PRIVATE INVESTORS AND ARE NOT OF STRATEGIC NATIONAL
IMPORTANCE. EXAMPLES INCLUDE THE KENYA MEAT COMMISSION,
UPLANDS BACON, AND VARIOUS PUBLIC HORTICULTURAL
PRODUCERS AND EXPORTERS. OVER THE LONG-TERM, FOR THE
TWO COMMODITIES, FERTILIZER AND GRAINS, FOR WHICH WE
HAVE SUCCEEDED IN ACHIEVING PARTIAL PRIVATIZATION, OUR
OBJECTIVE IS TO SEEK PRIVATE AND COOPERATIVE IMPORT AND
DISTRIBUTION OF ALL DONOR-FINANCED AND COMMERCIAL
FERTILIZER, AND PRIVATE SECTOR IMPORT OF ALL
DONOR-FINANCED AND COMMERCIAL FOOD GRAIN. GOVERNMENT'S
ROLE WOULD BE RESTRICTED TO BEING A FOOD GRAIN BUYER AND
SELLER OF LAST RESORT IN ORDER TO ASSURE PRESERVING
MINIMUM SUPPLIES AND STABLE PRICES. THOMAS

NOTE BY OC/T: (B)OMISSION IN TEXT. CORRECTION TO FOLLOW.

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ABS. ANNEX L. PRIVATIZATION PLAN

PD-AAW-409

1 OF 1 (24X)

1986

ANNUAL BUDGET SUBMISSION